



Employment Taxes for Exempt Organizations



Presenters



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Presentation Topics

- What are Employment Taxes?
- Independent Contractors vs. Employees
- Voluntary Classification Settlement Program
- Church and the Clergy
- Electronic Filing and Payment Options for Employment Tax Returns
- Small Business Health Care Tax Credit
- Additional Employment Tax Resources



What's an EIN

- An Employer Identification Number is also known as a Federal Tax Identification Number, and is used to identify a business entity.
- Businesses need an EIN.
- You may apply for an EIN in various ways, and now you may apply online.
- Check out our Interview-style online EIN application.
- No need to file a Form SS-4



Employment Taxes

- Federal income tax withholding
- Social Security and Medicare taxes
- Federal unemployment taxes



Federal Unemployment Tax Act

- It's part of the federal and state program that pays unemployment compensation to workers who lose their jobs.
- It was enacted to encourage states to provide payment to workers who have lost their jobs.
- FUTA tax should be reported and paid separately from FICA and FITW.
- FUTA tax is paid only from an organization's own fund.



Recordkeeping

- Your employer identification number.
- Amounts and dates of all wage, annuity, and pension payments.
- Amounts of tips reported.
- The fair market value of in-kind wages paid.
- Names, addresses, social security numbers, and occupations of employees and recipients.



Determining Payment for Services

Before a tax-exempt organization can determine payments for services rendered, the EO must first know the business relationship between the organization and the person performing the services.

- An independent contractor
- A common-law employee (employee)
- A statutory employee
- A statutory non-employee



Independent Contractors

- Behavioral control
- Financial control
- The type of relationship of the parties



Business Instructions

- When and where to do the work
- What tools or equipment to use
- What workers to hire or to assist with the work
- Where to purchase supplies and services
- What work must be performed by a specified individual
- What order or sequence to follow



Financial Control

- The extent to which the worker has unreimbursed business expenses
- The extent of the worker's investment
- The extent to which the worker makes his or her services available to the relevant market
- How the business pays the worker
- The extent to which the worker can realize a profit or loss.
- An independent contractor can make a profit or loss.



Form W-9

- Independent contractor must complete this form before he starts work and before you pay him.
- Form should show business status: sole proprietor, corporation or partnership.
- Payments of \$600-plus for the calendar year means you will have a reporting requirement for that independent contractor.



Form W-4

- Employer should ask a new employee to complete the most current version of Form W-4, “Employees Withholding Allowance Certificate.”
- A Form W-4 remains in effect until the employee submits a new one.
- An employee, who claims exemption from all withholding, must complete a new Form W-4 each year by February 15.



Volunteers

- Volunteers by definition are not employees.
- If an IRS examiner discovers a payment to an individual volunteer he might deduce it compensation to an employee or independent contractor.
- The examiner will look for the recordkeeping or withholding documents – Forms W-2, W-4, 941, or 1099.



Statutory Employees

- A full-time traveling or city salesperson who solicits orders on behalf of a principal.
- A full-time life insurance agent.
- An agent-driver or commission-driver.
- A home worker performing work on material or goods furnished by the employer.



Worker Classification

- The EO must correctly determine whether individuals providing services are employees or independent contractors.
- The EO must withhold income taxes, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee.
- The EO does not have to withhold or pay any taxes on payments to independent contractors.



Example 1

A friendly individual who enjoys working with people, a multi-line telegram, greet visitors when they come in the door, make coffee and perform various other tasks when time permits. The selected individual must be able to work from 8 AM to 5 PM, Monday-Friday. The position pays \$15 an hour.



Example 2

The president of ABC foundation manages the day-to-day activities of the organization: supervises manager to supervise the employees, signs the organization's checks, presides over monthly board meetings and performs other tasks as necessary to ensure the successful operation of the organization.



Example 3

A golf professional sells lessons on the premises of a golf club. She also sells golf equipment that she'd purchased wholesale. She sets prices, advertises her availability, makes appointment and carries on her activities with permission of the club, but without order or instructions from club members or officials.



VCSP

- The Voluntary Classification Settlement Program is a voluntary program that provides an opportunity for taxpayers to reclassify their workers as employees for employment tax purposes for future tax periods with partial relief from federal employment taxes.
- The taxpayer must meet certain eligibility requirements.



VCSP modification

- Permit a taxpayer under IRS audit to be eligible to participate in the VCSP.
- Clarify the current eligibility requirement that a taxpayer who is a member of an affiliated group within the meaning of section 1504(a) is not eligible to participate in the VCSP if any member of the affiliated group is under employment tax audit.



VCSP continued

- The VCSP is available for taxpayers who want to voluntarily change the prospective classification of their workers.
- The program applies to taxpayers treating their workers as independent contractors or other nonemployees and want to prospectively treat the workers as employees.



VCSP Agreements

- Pay 10 percent of the employment tax liability that would have been due on compensation paid to the workers for the most recent tax year.
- Not be liable for any interest and penalties on the amount.
- Not be subject to an employment tax audit.



Participating in VCSP

- To participate in the VCSP, a taxpayer must apply using Form 8952, Application for Voluntary Classification Settlement Program.
- The application should be filed at least 60 days prior to the date the taxpayer wants to begin treating its workers as employees.



Churches & Clergy

- A church is not required to withhold income tax from the compensation it pays ordained, commissioned, or licensed ministers.
- An employee minister may have a voluntary withholding agreement with the church.
- A church should report compensation paid to a minister on Form W-2 or 1099-MISC.



Minister Income

- A minister's gross income doesn't include the fair rental value of a home provided, or a housing allowance paid, as part of the minister's compensation for services performed that are ordinarily the duties of a minister.
- A minister furnished a parsonage may exclude from income the fair rental value.



Electronic Filing

- The Employment Tax e-file System is available for authorized IRS e-file providers known as reporting agents, software developers, transmitters, electronic return originators, 94x on-line filing providers and 94x on-line e-Filers who want to participate in the electronic filing programs for Forms 940, 941, and 944.



Post Filing Issues

- Appeals – If you disagree with an IRS result, you appeal.
- Taxpayer Advocate Service – Helps resolve problems and recommend changes.
- Employment Taxes and the Trust Fund Recovery Penalty – You hold the employee's money in trust until you make a federal tax deposit in that amount.



Federal Tax Liens

- A levy is a legal seizure of your property to satisfy a tax debt.
- Levies are different from liens.
- A lien is a claim used as security for the tax debt, while a levy actually takes the property to satisfy the tax debt.



Health Care Tax Credit

- This credit helps small businesses and small tax-exempt organizations afford the cost of covering their low- and moderate-income workers.
- The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.



SHOP

- On June 26, 2014, the IRS issued final regulations which include information on the requirement to purchase coverage through the Small Business Health Options Program marketplace.
- IRS Notice 2014-06 provides transition relief for employers in certain counties in Washington and Wisconsin with no SHOP coverage available.



SHOP continued

- The credit is available to eligible employers for two consecutive taxable years.
- If you pay \$50,000 a year toward employees' health care premiums — and if you qualify for a 15 percent credit, you save... \$7,500.
- If you save \$7,500 a year from tax year 2010 through 2013, that's total savings of \$30,000.



Eligibility

- To be eligible, you must cover at least 50 percent of the cost of employee-only health care coverage for each of your employees.
- You must also have fewer than 25 full-time equivalent employees (FTEs). Those employees must have average wages of less than \$50,000 (as adjusted for inflation beginning in 2014) per year.



What's an FTE?

- Two half-time employees count as one FTE. That means 20 half-time employees are equivalent to 10 FTEs, which makes the number of FTEs 10, not 20.
- Say you pay total wages of \$200,000 and have 10 FTEs. To figure average annual wages you divide \$200,000 by 10 and the result is your average annual wage. The average annual wage would be \$20,000.



How to Claim Credit

- Use Form 8941, Credit for Small Employer Health Insurance Premiums, to calculate the credit.
- Include the amount as part of the general business credit on your income tax return.
- If you're a tax-exempt organization, include the amount on line 44f of the Form 990-T, Exempt Organization Business Income Tax Return.




Employment Tax Resources

- Exempt Employer's Toolkit
- SSA/IRS Reporter
- Publication 15
- Publication 15-A
- Publication 15-B

And many more...



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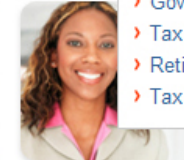
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▸ Order a Return or Account Transcript

▸ Use the Interactive Tax Assistant

▸ Apply for an EIN Online

▸ First Time Homebuyer Credit Look-up

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2013 Filing Season

2013 Free File, e-File

2013 EITC

Offshore Disclosure

Identity Theft



Everyone Can Use Free File

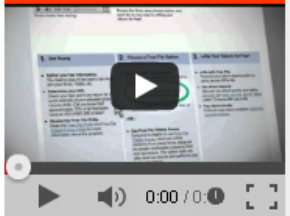
Prepare or file returns for free via software or online fillable forms.

Use IRS e-File





It's fast and secure and helps you file right the first time.

What to Expect for Refunds for 2013

Find out when to expect your refund and how to check on its status.



Welcome to Free File!



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What new organizations need to know

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Information about the automatic revocation process and how to be reinstated. NEW: Information for credit unions.

Education, Workshops and Seminars
IRS programs and materials for non-profit organizations

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Upcoming Events

IRS Exempt Organizations offers specialized education programs to help exempt organizations understand their tax responsibilities. The list below provides information about events on exempt organizations topics, and links to detailed information, including registration websites, for scheduled programs.

[Webinars](#) - EO tax law programs from your computer
Register now for free webinar on churches and religious organizations - July 26, 2012.
[Phone forums](#) - Free phone forums featuring IRS employees discussing exempt organizations topics.
Register now for phone forum on exempt organizations and gaming - July 18, 2012.
[Workshops](#) - Small and Medium-Sized Exempt Organizations - face-to-face programs on exempt organizations tax issues
[Conferences](#) - presented or sponsored by IRS Exempt Organizations
[Nationwide Tax Forums](#) - the latest word from IRS leadership and other experts in the exempt organizations tax law field

Additional information

- [Materials from past events](#)
- On-line educational programs available anytime at www.stayexempt.irs.gov

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- Appealing a Tax Dispute
- Responding to a Notice
- Taxpayer Advocate Service

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- Tax Stats, Facts & Figures

Work at IRS

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- Job Postings
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Charity and Nonprofit Audits

This web page will explain the IRS audit process for charities and other nonprofit organizations. IRS Exempt Organizations is continuously exploring how to improve our service to charities and other nonprofit organizations, and we hope you will find the information on this page useful.

You've probably reached this page because your charity or other nonprofit organization received a letter or phone call from IRS [Exempt Organizations \(EO\) Examinations](#) saying it had been selected for a review of its returns. The type of review is one of the following:

- Audits:** The IRS conducts two types of audits--
 - Field audit (or examination):** If the initial contact letter sets up an appointment for an IRS agent to visit the organization's premises, the IRS is conducting a field audit.
 - Office/correspondence audit (or examination):** If the letter asks you to deliver documents to an IRS office by mail, the IRS is conducting a correspondence audit.
- Non-audits:** If the letter indicates the IRS is conducting a [compliance check](#), then you're not being audited.

Note: The IRS also sometimes asks organizations to complete questionnaires to help us better understand how organizations satisfy federal tax law requirements. Neither compliance checks nor compliance check questionnaires are audits.

Organizations are [selected for reviews](#) for a variety of reasons, and the [scope of the audit or compliance check](#) will vary based on the type of review.

An audit starts with the initial contact and continues until a closing letter is issued. A compliance check or compliance check questionnaire starts with the initial contact. The IRS may contact the organization again if the IRS needs further information, or if the organization does not respond to the compliance check or questionnaire. The IRS typically issues a closing letter at the end of a compliance check, but not at the end of a compliance check questionnaire.

- [Initial contact and letter](#)
- [Review of requested items](#)
- [Closing conference and letter](#)


Taxpayer rights:

- [Taxpayer rights and Publication 1, Your Rights as a Taxpayer](#)
- [Right to representation and Form 2848](#)
- [Appeal rights and procedures](#)
- [Taxpayer Rights Corner](#)


Additional information - charity and nonprofit audits



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Current Edition of Exempt Organizations Update

EO Update is a periodic newsletter with information for tax-exempt organizations and tax practitioners - attorneys, accountants, and others - who represent them, from Exempt Organizations (Tax-Exempt and Government Entities) at the IRS.

Issue	Highlights	Release Date
2013-8	Inside This Issue <ol style="list-style-type: none">1. Reminder: Calendar year Form 990 series returns due by May 152. Executive Summary updated in EO's Final Report on Colleges and Universities	5/3/2013

Browse the newsletter [archive](#) or [subscribe](#) to future editions.

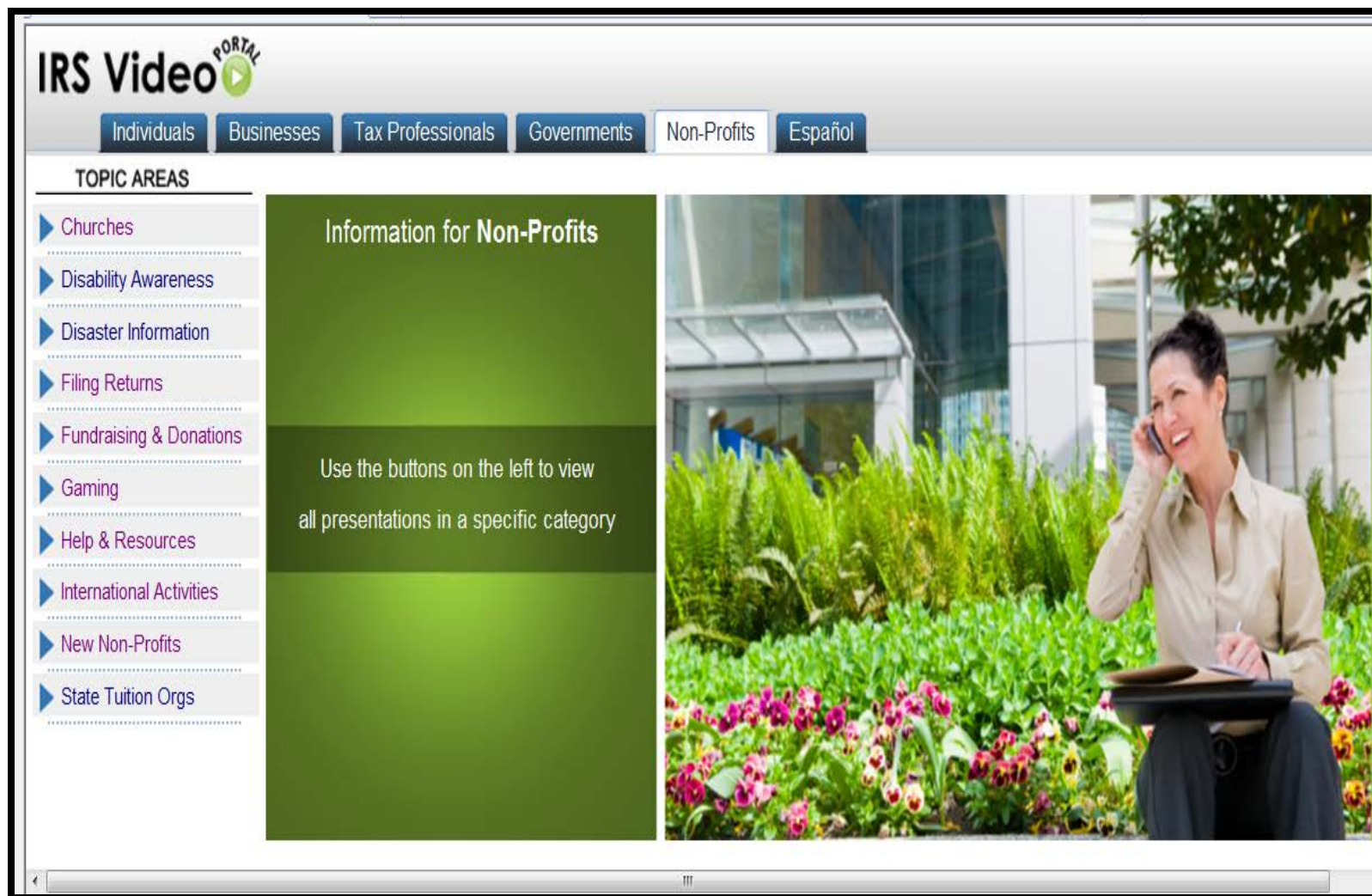
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For 501(c)(3) organizations:

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